

What's New

STANDARD DEDUCTION—For 2006, the standard deduction is increased to \$1,970.

FAMILY SIZE TAX CREDIT—This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount. The 2006 threshold amount is \$9,800 for a family size of one, \$13,200 for a family of two, \$16,600 for a family of three and \$20,000 for a family of four or more.

TOBACCO QUOTA BUYOUT—Imputed interest included in tobacco quota buyout is exempt from Kentucky income tax.

INCOME TAX EXCLUSION FOR MILITARY PERSONNEL KILLED IN THE LINE OF DUTY—HB 380 amended KRS.141.010 to exempt all income earned by soldiers killed in the line of duty from Kentucky tax for the years during which the death occurred and the year prior to the year during which the death occurred.

The changes are applicable for tax years beginning after December 31, 2001. The income exclusion applies to all income from all sources of the decedent, not just military income. The exclusion includes all federal and state death benefits payable to the estate or any beneficiaries.

Amended returns may be filed for the year the soldier was killed in the line of duty and the year prior to the year of death. The amended returns must be filed within the statute of limitations period; four years from the due date, the extended due date or the date the tax was paid, whichever is later.

If a combined return was filed, the exclusion would apply to the income reported in Column A or Column B of the Kentucky return attributable to the military member. If a joint return was filed, the income must be separated accordingly. Refunds will be issued in the names on the original return. Beneficiaries or estates that received death benefits that were included in a Kentucky return may file an amended return to request a refund of taxes paid on the benefit.

The Department of Revenue will use the Veterans Administration definition for "in the line of duty," which states that a soldier is in the line of duty when he is in active military service, whether on active duty or authorized leave; unless the death was the result of the person's own willful misconduct.

ENVIRONMENTAL STEWARDSHIP TAX CREDIT—For tax years beginning on or after January 1, 2006, an approved company may be permitted a credit against the Kentucky income tax imposed by KRS 141.020 or KRS 141.040 on the income of the approved company generated by or arising out of a project as determined under KRS 154.48-020. An "environmental stewardship product" means any new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment or provides for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. A company must have eligible cost of at least \$5 million and within six months after the activation date, the approved company compensates a minimum of 90 percent of its full-time employees whose jobs were created or retained with base salary wages equal to either: (1) 75 percent of the average

hourly wage for the commonwealth; or (2) 75 percent of the average hourly wage for the county in which the project is to be undertaken. The maximum amount of negotiated inducement that can be claimed by a company for any single tax year may be up to 25 percent of the authorized inducement. The agreement shall expire on the earlier of the date the approved company has received inducements equal to the approved costs of its project or 10 years from the activation date. For more information, contact the Cabinet for Economic Development, Old Capitol Annex, 300 West Broadway, Frankfort, Kentucky 40601.

Caution: An approved company under the Environmental Stewardship Act shall not be entitled to the recycling credit provided under the provisions of KRS 141.390 for equipment used in the production of an environmental stewardship project.

CLEAN COAL INCENTIVE TAX CREDIT—Effective for tax years ending on or after December 31, 2006, a nonrefundable, nontransferable credit against taxes imposed by KRS 136.120, KRS 141.020 or KRS 141.040 shall be allowed for a clean coal facility. As provided by KRS 141.428, a clean coal facility means an electric generation facility beginning commercial operation on or after January 1, 2005, at a cost greater than \$150 million that is located in the Commonwealth of Kentucky and is certified by the Environmental and Public Protection Cabinet as reducing emissions of pollutants released during generation of electricity through the use of clean coal equipment and technologies. The amount of the credit shall be \$2 per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit shall be allowed if the eligible coal has been used to generate a credit under KRS 141.0405 for the taxpayer, parent or a subsidiary.

DEDUCTION FOR CLEAN-FUEL VEHICLES—Beginning January 1, 2006, the Internal Revenue Code Section 179A deduction allowing taxpayers who owned qualified clean-fuel vehicles or refueling property a deduction from federal adjusted gross income was eliminated and replaced with a new credit for alternative motor vehicles enacted by the Energy Policy Act of 2005. Since Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2004, the clean-fuel deduction is still available for Kentucky income tax purposes in 2006. The deduction must be taken as a subtraction from federal adjusted gross income on Schedule M.

A qualified clean-fuel vehicle is any motor vehicle that is propelled by a clean-burning fuel such as natural gas, liquefied natural gas, hydrogen, electricity, or any other fuel at least 85 percent of which is methanol, ethanol, any other alcohol or ether. The deduction is computed as 25 percent of the cost of a qualified clean-fuel vehicle. The maximum amount of the deduction is now \$12,500 for a truck or van with a gross vehicle weight over 26,000 pounds or a bus with seating capacities of at least 20 adults; \$1,250 in the case of a truck or van with a gross vehicle weight between 10,000 and 26,000 pounds; and \$500 in the case of any other motor vehicle. If a vehicle may be propelled by both a clean-burning fuel and any other fuel, only the incremental cost of permitting the use of the clean-burning fuel shall be taken into account.